Maithan Alloys Limited

September 06, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities	90.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	15.00	CARE AA; Stable / CARE A1+ (Double A ; Outlook: Stable/ A One Plus)	Reaffirmed
Short Term Bank Facilities	435.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**540.00 (Rs. Five Hundred Forty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Maithan Alloys Limited (MAL) continues to derive strength from experience of the company's promoters and management, its long track record in the ferro alloys industry and established and reputed clientele with a sizable presence in the export markets. The ratings continue to factor in MAL's strong business risk profile with a large scale of diversified operations and healthy albeit somewhat fluctuating profitability margins, the company's comfortable financial risk profile with nil net debt position and strong liquidity position. Going forward, CARE Ratings believes that MAL will continue to operate at healthy margins and high-capacity utilization rates as witnessed in the last three fiscals through FY21 (refers to the period April 1 to March 31) notwithstanding disruption caused by covid-19 pandemic. Moreover, as stated and demonstrated by the company's management, the leverage levels are expected to remain low as the company does not have any concrete capex plans barring a small acquisition of Rs.75 crore already completed by it in FY22 through internal accruals. The ratings, however, remain constrained by dependence of the ferro alloy industry on the cyclical steel industry, susceptibility of profitability margins to volatility in raw material and finished goods prices, working capital intensive nature of operations and foreign exchange fluctuation risk.

Rating Sensitivities

Positive Factors

- Substantial increase in the operating income and improvement in return on capital employed (ROCE) above 25% on sustained basis
- Improvement in the operating cycle to below 70 days on sustained basis

Negative Factors

- Decline in the operating income below Rs.1,500 crore and PBILDT margin below 12%
- Deterioration in overall gearing beyond 0.5x and total debt/PBILDT above 2x, respectively
- Elongation in the operating cycle beyond 120 days on sustained basis
- Reduction in cash and cash equivalents below Rs.500 crore

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record in the ferro alloy industry: MAL's promoter, Mr Subhas Chandra Agarwalla has an experience of around three decades in the ferro alloy industry. Mr SC Agarwalla is involved in project setups, corporate planning, business development and budgeting functions. He is supported by his sons- Mr Subodh Agarwalla (Whole-time Director and CEO) and Mr Sudhanshu Agarwalla (CFO) who have sound technical and managerial qualifications and experience. They look after the day-to-day operations of the company. The experience and technical expertise of the promoters has contributed in MAL establishing its strong foothold in an otherwise highly volatile ferro alloy industry.

Diversified operations with strategic location of the manufacturing facilities: MAL's manufacturing facilities are present in Kalyaneshwari (West Bengal), Visakhapatnam (Andhra Pradesh) and Ri-Bhoi (Meghalaya). The manganese ore requirements are met through imports from South Africa, Gabon and Australia. Coke is imported from China for Visakhapatnam unit and purchased from Dhanbad for Kalyaneshwari unit and from Guwahati for the Meghalaya unit. While the company mostly caters to the domestic market through its plant in West Bengal and Meghalaya, it caters to international market through its plant in Visakhapatnam. Proximity to end-users due to presence of large number of steel players in East India for the domestic sales and presence near the ports for export sales and imported raw materials results in optimal freight and inventory holding costs, leading to competitive pricing and better margins. In FY21, the company has completed acquisition of Impex Metals & Ferro Alloys Ltd. The said plant has capacity of 49,500 MTPA of silico manganese, which is expected to recommence its operations from Q4FY22.

Established and reputed clientele along with strong presence in the export market: Around 90% of MAL's domestic sales in FY21 is to Steel Authority India Ltd (SAIL, rated 'CARE AA; Stable/ CARE A1+'). Although concentrated in the domestic market, counter party risk is mitigated to a large extent due to SAIL being a large steel producer with high credit standing. Moreover, the company has sizable presence with 58% of the total sales driven from export as against 53% in FY20. During FY21, MAL's share in the bulk ferro alloys exports from India (excluding ferro chrome and other ferro alloys exports from India) was around 12%. For its exports, MAL caters to reputed and large global players, some of which are also state-controlled entities. MAL is getting repeat orders from its clients due to established relationship with them.

High-capacity utilization levels: The capacity utilization moderated slightly during FY21, however, continued to remain optimum at 89% in FY21 against 97% in FY20. The dip was mainly due to shutdown of Kalyaneshwari and Vizag plant owing to COVID-19-induced lockdown in Q1FY21 (refers to the period April 1 to June 30). The capacity utilization had fallen to 62% in Q1FY21, however, with rebound in demand in next three quarters, overall capacity utilization rose to healthy levels. Moreover, the company's capacity utilization in Q1FY22 stood healthy at 91% reflecting negligible impact of second wave of covid-19 pandemic. The capacity utilization had remained over 95% in last three years prior to FY21 reflecting the company's strong track record to operate optimally.

Strong business risk profile with healthy profitability margins: The PBILDT margin of the company improved significantly by 554 bps to 18.37% in FY21 due to improved spread on the back of declining prices of manganese ores and high net sales realizations amid buoyancy in the global steel industry from Q2FY22. However, the total operating income (TOI) reduced y-o-y by 12% to Rs.1,619.78 crore in FY21, mainly due to disruptions caused by pandemic-induced lockdown. Furthermore, during Q1FY22, the TOI improved significantly by 113% Y-o-Y due to low base effect and continued upsurge in ferro alloy prices. Resultantly, the PBILDT margin also improved from 15.56% in Q1FY21 to 26.76% in Q1FY22. While the Q1FY22 margins appear elevated temporarily due to strong upcycle in the steel industry and margins may normalize in coming quarters, nonetheless, the company is expected to maintain healthy profitability profile on the back of its cost-efficient operations.

Healthy financial risk profile: MAL's overall gearing continues to remain comfortable at 0.12x as on March 31, 2021, as against 0.05x as on March 31, 2020. The company had announced a greenfield project towards the manganese-based ferro alloys unit in Bankura, West Bengal, for which it has set up a subsidiary, Maithan Ferrous Private Limited. The company had purchased land for the same through another subsidiary for around Rs.6 crore. The said capex, however, has been deferred due to delay in obtaining regulatory clearances. MAL is currently exploring opportunities to set up a greenfield project in a suitable location but there are no concrete capex plans as of now. As stated and demonstrated by the company's management, its overall gearing shall not exceed 0.50 times, at any point of times in the future. Going forward, maintenance of low gearing risk and high operational efficiencies shall remain crucial from credit perspective as the company operates in highly volatile ferro alloys industry which is susceptible to the vagaries of steel cycles.

Key rating weakness

Dependence of ferro alloy industry on cyclical steel industry: The bulk ferro alloy market segment is categorised into alloy steel, carbon steel, stainless steel and others. Around 17%-23% chromium is required for every ton of stainless steel manufactured and around 0.7% manganese is required for every ton of steel. The above is met through alloys of chromium and manganese. Thus, there exists a strong co-relation between the volume growth of the ferro alloy industry and the steel industry which makes the operations of ferro alloys players susceptible to the vagaries of the steel industry.

Susceptibility of profitability to volatile raw material and finished goods prices: Manganese ore, coal and coke are the major raw materials required which constituted about 46% of the total cost of sales in FY21. MAL does not have any backward integration for its major raw material exposing it to availability and price risk. It purchases power from state power utilities with average power cost standing at Rs.4.5 per unit in FY21. The price of manganese ore and coke is highly volatile and the realization of the ferro alloys is also governed by the performance of the end-user steel industry. Thus, MAL's profitability is highly susceptible to fluctuation in prices of the raw materials and the finished goods. However, due to its strong management and cost-effective operations, the company has been able to manage these fluctuations somewhat better as reflected in relative steadiness in its operating margins vis-à-vis the peers.

Working capital intensive nature of operation: MAL's operations are working capital intensive in nature as it has to offer credit period for around 2 months to SAIL and around a month to other customers due to intense competition in the industry. Other than inventory in transit, MAL usually maintains around one month of inventory at its Visakhapatnam unit and two months of inventory at its Kalyaneshwari unit for smooth running of operations. The working capital cycle of the company rose to 136 days in FY21 from 83 days in FY20. This has primarily increased due to the management's strategy to sell directly to end users, which was earlier routed through traders having shorter payment cycles.

Foreign exchange fluctuation risk: MAL imports manganese ore from South Africa and Gabon (around 65%), Australia (around 30%) and Brazil (around 5%). The company imports around 90% of its raw material requirement (mainly manganese ore). Also, the company has a strong presence in the export market with exports contributed around 58% of the total sales in FY21. Hence, the company enjoys natural hedge to an extent and for the remaining portion, it hedges its net foreign currency exposure through forward contracts thereby mitigating foreign currency fluctuation risk to a large extent. MAL reported foreign exchange gain of Rs.10.71 crore in FY21 as against Rs.33.45 crore in FY20.

Industry prospects: The fortune of the ferro alloys industry is directly correlated to the steel industry. The steel industry continues to witness steady growth, and in FY22, domestic crude steel production is expected to reach 112-114 million tonnes, which would be a growth of 9%-11% y-o-y. CARE Ratings expects the domestic steel demand to grow at a compounded annual growth rate (CAGR) of about 7.5% during the next 2-3 years. Steel demand will be supported by economic recovery, government spending on infrastructure, revival in capex cycle and enhanced liquidity. The Union Budget for 2021- 2022 has a sharp 34.5% y-o-y increase in allocation for capex at 5.54 lakh crore. The budget's thrust is on infrastructure creation and manufacturing to propel the economy. Therefore, enhanced outlays for key sectors like defence services, railways, and roads, transport and highways would provide impetus to steel consumption.

Strong Liquidity: MAL's liquidity profile is marked by strong accruals of Rs.252 crore against negligible repayment obligations of Rs.0.07 crore during FY21. Moreover, the company had cash and cash equivalents of Rs.801.91 crore as on June 30, 2021. Its unutilized bank lines to the extent of 80% in last 12 months ended July 2021 also supports liquidity. The company does not have any concrete capex plans.

Analytical approach: Standalone.

Applicable Criteria

[Criteria on assigning Outlook & Credit Watch to Credit Ratings]

[Criteria for Short Term Instruments]

[CARE's Policy on Default Recognition]

[Financial ratios – Non-Financial Sector]
[Rating Methodology : Manufacturing Companies]
[Liquidity Analysis of Non-Financial Sector Entities]
[Rating Methodology-Steel Industry]

About the Company

Maithan Alloys Limited (MAL), incorporated in 1985, is engaged in the manufacturing of ferro alloys, having an installed capacity of 136 MVA (i.e., 235,600 MT of ferro Alloys) at three locations, i.e., 49 MVA (94,600 MTPA) at Kalyaneshwari, West Bengal, 15 MVA (21,000 MTPA) at Ri-Bhoi, Meghalaya and 72 MVA (1,20,000 MTPA) at Visakhapatnam, Andhra Pradesh. The Meghalaya unit has a captive power plant of 15 MW, which is not operational since January 2019. MAL is also engaged in the trading of metal and mineral products and wind power operation. The day-to-day operations of the company are looked after by Mr S. C. Agarwalla with support from his two sons, Mr Subodh Agarwalla and Mr Sudhanshu Agarwalla.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	1830.88	1619.78
PBILDT	234.92	297.52
PAT	221.90	233.03
Overall gearing (times)	0.05	0.12
Interest coverage (times)	39.88	94.15

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: NA

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/facility: Please refer Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Letter of credit	-	-	-	400.00	CARE A1+
Non-fund-based - ST-Bank Guarantees	-	-	-	35.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	90.00	CARE AA; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	15.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - ST-Letter of credit	ST	400.00	CARE A1+	-	1)CARE A1+ (08-Oct-20)	1)CARE A1+ (16-Aug-19)	1)CARE A1+ (28-Sep-18)
2.	Non-fund-based - ST-Bank Guarantees	ST	35.00	CARE A1+	-	1)CARE A1+ (08-Oct-20)	1)CARE A1+ (16-Aug-19)	1)CARE A1+ (28-Sep-18)
3.	Fund-based - LT-Cash Credit	LT	90.00	CARE AA; Stable	-	1)CARE AA; Stable (08-Oct-20)	1)CARE AA; Stable (16-Aug-19)	1)CARE AA; Stable (28-Sep-18)
4.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	-	1)Withdrawn (16-Aug-19)	1)CARE AA; Stable (28-Sep-18)
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	15.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (08-Oct-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no. 022-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Ajay Dhaka
Contact no. 011-4533 218
Mob: 8826868795
Email ID- ajay.dhaka@careratings.com

Relationship Contact
Mr. Lalit Sikaria
Contact no.: 033- 40181600
Mob.: 9830386869
Email ID: lalit.sikaria@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**